



## **LOCAL PENSION COMMITTEE – 26 JANUARY 2024**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **DRAFT RESPONSIBLE INVESTMENT PLAN 2024**

##### **Purpose of the Report**

1. The purpose of this report is to seek the Local Pension Committee's approval of the Leicestershire Pension Fund's Responsible Investment Plan 2024 (Appendix A) to enable the Fund to further improve the management of responsible investment risks.

##### **Background**

2. The term 'responsible investment' refers to the integration of financially material environmental, social and corporate governance ("ESG") factors into investment processes. It has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. It is distinct from 'ethical investment', which is an approach in which the moral persuasions of an organisation take primacy over its investment considerations.
3. The Fund's approach to Responsible Investment (RI) matters have been incorporated into the Investment Statement Strategy (ISS) and all actions the Fund undertakes. These are considered in two key areas:
  - Sustainable Investment: considering the financial impact of ESG factors on its investments.
  - Stewardship and Governance: acting as responsible and active investors/owners through considered voting of shares and engaging with investee company management as part of the investment process.
4. The first RI plan was approved at the January 2020 Local Pension Committee meeting, with updated plans being presented and approved annually since. A progress update of the latest 2023 plan is attached as Appendix B.

##### **Responsible Investment Plan 2024**

5. Officers have developed the Fund's 2024 RI plan in conjunction with LGPS Central's in-house RI team. The plan includes outputs and recommendations from the Fund's latest Climate Risk Report which was supported by the Local Pension Committee at its meeting on 1 December 2023.

6. The plan builds on the four previous iterations and improves on the approach and beliefs detailed in the Fund's ISS, Net Zero Climate Strategy (NZCS) and discussions held by the Committee throughout 2023.
7. The draft RI plan for 2024 is attached as Appendix A. Some highlights are as follows:
  - Continuation of quarterly manager presentations to the Local Pension Committee that include manager views, performance and ESG factors.
  - As a deeper dive into stewardship with the Committee, the Fund will invite LGPS Central to present their revised Stewardship Themes, including key performance indicators (KPIs) and outcomes on previous engagements.
  - Continuation of the review of the Fund's investment managers' approaches to climate risk as at 31 March 2024 to understand changes since the last questionnaire, the data that is available, and include wider RI issues as relevant, such as their approaches to stewardship. This will help the Fund understand alignment with the Fund's NZCS, and shape engagement and discussions held with managers throughout the year.
  - Climate Risk Management Report/Task Force on Climate Related Financial Disclosures reporting. To report against progress of the NZCS and additional metrics such as sovereign bonds. To progress additional asset class targets where data is available.
  - Details will be shared when LGPS Central have organised their Stakeholder day and RI Summit
8. The Committee will continue to receive quarterly reports on stewardship, voting and engagement each quarter. Committee members are encouraged to highlight any areas of particular interest (for example, sector or type of engagement) if they would like more in-depth reporting on specific matters or themes.

### **Engagement and Stewardship**

9. There are various bodies, codes and initiatives the Fund could join if it so wished. Historically, other than the Local Authority Pension Fund Forum, the Fund has not become a direct signatory to certain key initiatives relating to RI as it has been comfortable that, as its investment managers and LGPS Central have always been signatories, the Fund is adhering to the broad principles by default. However, the Fund will consider further collaboration vehicles as it sees fit.
10. The Fund's strategy has been to engage with its investee companies and other key stakeholders through its current partnerships, in order to protect and increase shareholder value by engaging on a range of financially material ESG investment factors. This engagement programme is implemented through partnerships including the Local Authority Pension Fund Forum (LAPFF), Equity Ownership Service (EOS) at Federated Hermes (via a contract held by LGPS Central Ltd, the Fund's investment pool operator). LGIM also have a strong engagement programme which covers a proportion of the Fund's passive portfolio.

### Local Authority Pension Fund Forum

11. The Fund is a member of the LAPFF, alongside Central and the other partner funds. This is a collaborative shareholder engagement group with over £350billion in assets and accounts for most LGPS funds and pools.
12. The Forum publishes quarterly stewardship progress reports, as well as key voting alerts many of which are in relation to supporting climate lobbying and resolutions related to setting carbon emission targets. The activity of LAPFF is highlighted at each quarterly Committee meeting.
13. LAPFF held an annual responsible investment conference in December 2023 titled “Stewardship in a time of global crises”. The conference held various sessions which covered topics such as ‘escalating stewardship action’, ‘water companies and environmental value’, ‘how LGPS funds and pools manage climate related financial risk’, ‘proxy voting’, ‘ESG backlash’, ‘electric vehicle supply chains’, ‘modern day slavery’, ‘biodiversity’, ‘alternatives in getting to net zero’, ‘levelling up’, and ‘living wage’. The conference set out many positive examples of progress with engagements possible through collaboration, as set out in their quarterly and annual reporting cycles. Officers will explore opportunities for the Fund to enhance its own approach to issues raised and address these with LGPS Central and external managers on how the Fund can better hold managers to account on their stewardship and voting activities. Including encouraging a cohesive approach to engagement, how managers are engaging with fossil fuel companies, and how that aligns with the Fund’s approach more broadly.
14. LAPFF engage with companies on behalf of LGPS funds, and while progress can seem slow, escalation is evidenced and supported through their collaboration with other asset owners and managers. Reports are produced quarterly on this progress and can be found on their website.

### Further Opportunities for Collaboration

15. There is no obligation for the Fund to be a signatory of any body. However, it may be prudent where they are strongly aligned with the views and beliefs of the Committee.
16. As part of the RI Plan officers can look to explore these opportunities throughout the year alongside LGPS Central. Where there is added value to the Fund not already achieved through its current approach and collaborations, this will be reported to Committee.
17. One area of exploration will be the Financial Reporting Council’s Stewardship Code. Currently the code is under review, but it is proposed once completed the Fund can explore application once the new code is published, and subject to it providing benefit to the Fund and its scheme members.

### **Recommendation**

18. It is recommended that the Local Pension Committee approves the Responsible Investment Plan 2024 attached as Appendix A to this report.
19. The Committee is also asked to provide feedback on any areas of interest.

**Equality Implications**

20. None.

**Human Rights Implications**

21. None.

**Appendices**

Appendix A: Draft 2024 Responsible Investment Plan

Appendix B: Progress against 2023 Responsible Investment Plan

**Background Papers**

Local Pension Committee – Friday 18 November 2022 – [Climate Risk Report](#)

Local Pension Committee – Friday 21 January 2022 – [Responsible Investment Plan 2022](#)

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